

**KENT CITY
COMMUNITY SCHOOLS
Kent County, Michigan**

Comprehensive Annual Financial Report

For the year ended June 30, 2006

KENT CITY COMMUNITY SCHOOLS
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For the year ended June 30, 2006

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FINANCIAL SECTION

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

August 25, 2006

The Board of Education
Kent City Community Schools

We have audited the accompanying financial statements of the governmental activities, the major funds and the aggregate remaining fund information of Kent City Community Schools (the "District") as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's elected officials and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major funds and the aggregate remaining fund information of Kent City Community Schools as of June 30, 2006, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2006 on our consideration of Kent City Community Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Kent City Community Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungerford, Aldrin, Nichols & Carter, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

KENT CITY COMMUNITY SCHOOLS

Management's Discussion and Analysis June 30, 2006



As management of the Kent City Community Schools (“the District”), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the District’s financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District’s operations in more detail than the district-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
 - ♦ *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes combining and individual fund statements.

District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District’s assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District’s net assets, and how they have changed. Net assets - the difference between the District’s assets and liabilities - is one way to measure the District’s financial health or position.

- Over time, increases or decreases in the District’s net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District’s overall health, one should consider additional non-financial factors such as changes in the District’s property tax-base and the condition of school buildings and other facilities.

KENT CITY COMMUNITY SCHOOLS

Management's Discussion and Analysis June 30, 2006



In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities:* The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

Condensed District-Wide Financial Information

The Statement of Net Assets provides financial information on the District as a whole.

	<u>2006</u>	<u>2005</u>
Assets		
Current assets	\$ 5,034,922	\$ 6,418,952
Capital assets, net book value	<u>24,651,355</u>	<u>23,717,013</u>
Total Assets	<u>29,686,277</u>	<u>30,135,965</u>
Liabilities		
Current liabilities	3,531,921	3,695,471
Long-term liabilities	<u>24,844,515</u>	<u>24,820,052</u>
Total Liabilities	<u>28,376,436</u>	<u>28,515,523</u>
Net Assets		
Invested in capital assets, net of related debt	(390,314)	398,073
Restricted	625,528	413,162
Unrestricted	<u>1,074,627</u>	<u>809,207</u>
Total Net Assets	<u>\$ 1,309,841</u>	<u>\$ 1,620,442</u>

The results of the fiscal year's operations for the District as a whole are presented in the Statement of Activities, which shows the change in total net assets for the year.

KENT CITY COMMUNITY SCHOOLS

Management's Discussion and Analysis June 30, 2006



The Statement of Activities presents changes in net assets from operating results:

	2006	2005
Program Revenues		
Charges for services	\$ 345,240	\$ 358,469
Operating grants	1,923,277	1,700,725
General Revenues		
Property taxes	2,031,236	1,913,348
State school aid, unrestricted	9,391,185	9,018,295
Interest earnings	98,628	121,456
Loss on disposal of capital assets	—	(23,960)
Other	58,917	43,959
Total Revenues	13,848,483	13,132,292
Expenses		
Instruction	7,725,299	7,328,104
Supporting services	4,262,316	4,069,284
Community services	254,596	213,074
Food service	492,522	436,304
Athletics	327,205	298,387
Other	—	4,230
Interest expense	976,813	1,174,063
Depreciation - unallocated	120,333	70,082
Total Expenses	14,159,084	13,593,528
Decrease in net assets	(310,601)	(461,236)
Net Assets - Beginning of Year	1,620,442	2,081,678
Net Assets - End of Year	\$ 1,309,841	\$ 1,620,442

Financial Analysis of the District as a Whole

The District's financial position is the product of many factors. District wide revenues increased and overall expenses decreased from the previous year. The combination of increased revenues and expenses again caused a reduction in net assets. The decrease was lower by 33% than in the previous year.

The District's total revenues increased by 5.5 percent to \$13.8 million. Property taxes contributed 14.7 percent of revenue while unrestricted state aid accounted for 67.8 percent of the District's revenue. Another 13.9 percent came from federal and state aid for specific programs and the remainder from fees charged for services, investment income and miscellaneous sources.

KENT CITY COMMUNITY SCHOOLS

Management's Discussion and Analysis June 30, 2006



The total cost of all programs and services increased 4 percent to \$14.2 million. The District's expenses are predominantly related to instructing (55 percent) and supporting activities (30 percent). The small increase in expenditures is the net result of increases in salaries and benefits combined with reductions in other areas. The reductions were done so as to minimize student impact.

The recent health of the District's finances can be credited to a strong and innovative management and support from the Board of Education and all employees :

- The District's evaluation and review all departments and programs has produced leaner operations with small impact to students. Changes that were made in the previous year continue to be monitored for their effect on the District. This process helped minimize the effects of increased wages, health insurance cost and the added cost of State mandated retirement contributions by the district.
- The cost of all governmental activities this year was \$14.2 million.
- Some of the cost was financed by the users of the District's programs (\$345,240).
- The federal and state governments subsidized certain programs with grants and contributions (\$1.9million).
- Most of the District's costs (\$11.6 million) were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$2.0 million in property taxes, \$9.4 million of state aid based on the statewide education aid formula and the balance with interest earnings and other local sources.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District utilizes two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.

Fiduciary funds: The District is the trustee, or fiduciary, for assets that belong to others, such as Scholarship and Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it can not use these assets to finance its operations.

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KENT CITY COMMUNITY SCHOOLS

Management's Discussion and Analysis June 30, 2006



Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Kent City Community Schools funds are described as follows:

Major Funds

General Fund

The General Fund is the District's primary operating fund. The General Fund had total revenues of \$11,801,296, total expenditures of \$11,331,712, and total other financing uses of \$272,201. It ended the fiscal year with a fund balance of \$1,298,688, up from \$1,101,305 at June 30, 2005.

2001 Construction Capital Projects Fund

The 2001 Construction Fund had interest earnings of \$23,140 and expenditures of \$2,224,073 during the fiscal year, with an ending fund balance of \$5.

Nonmajor Funds

Special Revenue Funds

The District operates two Special Revenue Funds, for the food service and athletics programs. Total revenues were \$463,424 and other financing sources were \$272,201, with total expenditures of \$737,743. The ending fund balances totaled \$22,880, of which \$12,926 belonged to the Food Service Fund and \$9,954 to the Athletic Fund.

Debt Service Funds

The District operates five Debt Service Funds. Total revenues were \$1,380,361, total financing sources (bond refunding and State school bond loan proceeds) were \$14,007,541, total expenditures were \$1,921,144, and total other financing uses (bond refunding payments and bond discount) were \$13,434,372. Ending fund balances totaled \$142,567.

Capital Projects Funds

The Building and Site (Sinking) fund had total revenues of \$181,935, expenditures of \$17,165 with an ending fund balance of \$642,141.

Fiduciary Funds

The Scholarship Funds and the Student Activities Fund are operated as Trust and Agency Funds of the District. The assets of these funds are being held for the benefit of the District's students. Balances on hand at June 30, 2006 totaled \$168,480.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget twice. These budget amendments fall into the categories of:

- The first revision was to adjust for the changes in going from assumptions to known facts.
- Final changes made in June for changes in appropriations to prevent budget overruns.

KENT CITY COMMUNITY SCHOOLS

Management's Discussion and Analysis June 30, 2006



- Although the District's final budget for the General Fund anticipated that expenditures would exceed revenues by \$72,450, the actual results for the year showed an increase of \$197,383.
- Actual revenues were \$122,988 more than expected.
- Actual expenditures were \$179,046 below budget, due primarily to unanticipated savings.
- Expenditures in most classifications were below budget by a variety of amounts and for a variety of reasons.

Capital Asset and Debt Administration

Capital Assets

By the end of 2006, the District had invested \$35.3 million in a broad range of capital assets, including land and improvements, school buildings, athletic facilities, vehicles, and furniture and equipment. More detailed information regarding capital assets can be found in Note E in the Notes to Basic Financial Statements. Total depreciation expense for the year was \$1,336,280.

The District's fiscal year 2006-07 capital projects budget include completing construction of ongoing capital projects, principally in two areas:

- To complete the new facilities for the Middle School
- Remodeling to the High School

At June 30, 2006, the District's investment in capital assets (net of accumulated depreciation) is detailed as follows:

Land	\$ 57,486
Land improvements	1,160,785
Buildings and additions	22,155,502
Furniture and equipment	862,749
Vehicles	<u>414,833</u>
Net Capital Assets	<u>\$ 24,651,355</u>

Long-Term Debt

At year end, the District had \$22.7 million in general obligation bonds and installment purchase agreements outstanding. The District has also borrowed a total of \$2,997,509 from the State School Bond Loan Program and has an accumulated severance pay liability of \$100,100 and early retirement incentive liability of \$152,262.

- The District continued to pay down its debt, retiring \$13,808,995 of outstanding bonds and installment purchase agreements, with the assistance of two bond refunding issues totaling \$13,370,000.

KENT CITY COMMUNITY SCHOOLS

Management's Discussion and Analysis June 30, 2006



The District's bond rating for General Obligation Tax debt remains "Aa". The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the District's boundaries. The District's other obligations include advances from the State School Bond Loan Program for bond payments in excess of allowable property taxes. We present more detailed information about our long-term liabilities in the Notes to Basic Financial Statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The condition of the State of Michigan's economy and how it affects the State's funding level for education for not only the 2006-07 fiscal year but also the next several years. With approximately 82% of the District's revenue coming from the State, any reductions made by the State in education funding will have a greater impact on our District.
- Due to the slow economy of the area and the State families are starting to move out of the area to areas with better economic opportunities.
- Enacted legislation such as No Child Left Behind and new State of Michigan High School Graduation requirements continue to be implemented. As implementation of these requirements continues and the need for every increasing student performance becomes more urgent the cost of these new requirements and initiatives are just becoming known.
- Increasing costs of employee benefits, especially health insurance and retirement contributions to the Michigan Public School Employee Retirement System.
- As the District continues to make reductions, the items that can be further cut or reduced are dwindling. Without making deep program and personnel reductions, options are running out.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Kent City Community Schools 200 Clover Street, Kent City, MI 49330. Contact by e-mail: kent-city.k12.mi.us.

BASIC FINANCIAL STATEMENTS

KENT CITY COMMUNITY SCHOOLS
Statement of Net Assets
June 30, 2006

	Governmental Activities
Assets	
Current Assets	
Cash	\$ 450
Cash equivalents, deposits and investments (Note B)	2,357,639
Taxes receivable (Note C)	8,274
Due from other governmental units (Note C)	2,023,896
Inventory (Note A)	4,462
Prepaid expenses	640,201
Total Current Assets	<u>5,034,922</u>
Noncurrent Assets	
Capital assets (Note E)	35,229,521
Less accumulated depreciation	<u>(10,578,166)</u>
Total Noncurrent Assets	<u>24,651,355</u>
Total Assets	<u>29,686,277</u>
Liabilities	
Current Liabilities	
Accounts payable	254,978
State aid anticipation loan payable (Note F)	963,000
Due to other governmental units	468,837
Payroll withholdings payable	10,248
Accrued interest payable	191,770
Salaries payable	530,155
Deferred revenue	35,088
Current portion of long term obligations	1,077,845
Total Current Liabilities	<u>3,531,921</u>
Noncurrent Liabilities (Note G)	
General obligation bonds payable	22,305,000
Durant nonplaintiff bonds payable	187,428
State school bond loan payable	2,997,509
Installment purchase agreements payable	180,061
Severance pay	100,100
Early retirement incentive	152,262
Current portion of long term obligations	<u>(1,077,845)</u>
Total Noncurrent Liabilities	<u>24,844,515</u>
Total Liabilities	<u>28,376,436</u>
Net Assets	
Invested in capital assets, net of related debt	(390,314)
Restricted for:	
Debt service	(16,913)
Capital projects	642,441
Unrestricted	<u>1,074,627</u>
Total Net Assets	<u><u>\$ 1,309,841</u></u>

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
Statement of Activities
For the year ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 7,725,299	\$ 28,862	\$ 1,661,618	\$ (6,034,819)
Supporting services	4,262,316	1,500	26,449	(4,234,367)
Community services	254,596	60,935	-	(193,661)
Food service	492,522	195,723	209,330	(87,469)
Athletics	327,205	58,220	-	(268,985)
Interest on long-term debt	976,813	-	25,880	(950,933)
Depreciation - unallocated	120,333	-	-	(120,333)
Total Governmental Activities	\$14,159,084	\$ 345,240	\$ 1,923,277	(11,890,567)
General Revenues				
Taxes:				
Property taxes, levied for general operations				524,047
Property taxes, levied for debt service				1,344,255
Property taxes, levied for capital improvement				162,934
State school aid, unrestricted				9,391,185
Interest and investment earnings				98,628
Other				58,917
Total General Revenues				11,579,966
Change in Net Assets				(310,601)
Net Assets - Beginning of Year				1,620,442
Net Assets - End of Year				\$ 1,309,841

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2006

	General	2001 Construction	Nonmajor	Total
Assets				
Cash	\$ 100	\$ -	\$ 350	\$ 450
Cash equivalents, deposits and investments (Note B)	1,554,947	5	802,687	2,357,639
Taxes receivable (Note C)	5,421	-	2,853	8,274
Due from other funds (Note D)	10,491	-	7,640	18,131
Due from other governmental units (Note C)	1,986,127	-	37,769	2,023,896
Inventory (Note A)	-	-	4,462	4,462
Prepaid expenditures	10,181	-	-	10,181
Total Assets	<u>\$3,567,267</u>	<u>\$ 5</u>	<u>\$ 855,761</u>	<u>\$ 4,423,033</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 225,080	\$ -	\$ 29,898	\$ 254,978
State aid anticipation loan payable (Note F)	963,000	-	-	963,000
Due to other funds (Note D)	6,220	-	11,911	18,131
Due to other governmental units	465,326	-	3,511	468,837
Payroll withholdings payable	10,248	-	-	10,248
Accrued interest payable	28,041	-	-	28,041
Salaries payable	530,155	-	-	530,155
Deferred revenue	40,509	-	2,853	43,362
Total Liabilities	<u>2,268,579</u>	<u>-</u>	<u>48,173</u>	<u>2,316,752</u>
Fund Balances				
Reserved for:				
Debt service	-	-	142,567	142,567
Capital outlay	-	5	642,141	642,146
Unreserved:				
Undesignated, reported in:				
General fund	1,298,688	-	-	1,298,688
Special revenue funds	-	-	22,880	22,880
Total Fund Balances	<u>1,298,688</u>	<u>5</u>	<u>807,588</u>	<u>2,106,281</u>
Total Liabilities and Fund Balances	<u>\$3,567,267</u>	<u>\$ 5</u>	<u>\$ 855,761</u>	<u>\$ 4,423,033</u>

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2006

Total governmental fund balances			\$ 2,106,281
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$35,229,521 and accumulated depreciation is \$10,578,166.			
			24,651,355
Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue.			
			630,020
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:			
General obligation bonds	\$(22,305,000)		
Durant non-plaintiff bonds	(187,428)		
State school bond loan	(2,997,509)		
Installment purchase agreements	(180,061)		
Severance pay	(100,100)		
Early retirement incentive	(152,262)		
			(25,922,360)
Accrued interest is not included as a liability in governmental funds.			
			(163,729)
Deferred revenue recognized as revenue in the full accrual statements:			
Property taxes			8,274
			<u>8,274</u>
Total net assets - governmental activities			<u><u>\$ 1,309,841</u></u>

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2006

	General	2001 Construction	Nonmajor	Total
Revenues				
Local sources	\$ 722,044	\$ 23,140	\$1,794,099	\$ 2,539,283
State sources	9,646,965	-	38,891	9,685,856
Federal sources	643,400	-	192,730	836,130
Interdistrict sources	788,887	-	-	788,887
Total Revenues	11,801,296	23,140	2,025,720	13,850,156
Expenditures				
Current:				
Instruction	6,852,759	-	-	6,852,759
Supporting services	3,762,377	-	-	3,762,377
Community services	205,670	-	-	205,670
Food service	-	-	467,398	467,398
Athletics	-	-	270,345	270,345
Capital outlay	-	2,224,073	17,165	2,241,238
Debt service:				
Principal repayment	112,999	-	830,365	943,364
Interest and fiscal charges	9,900	-	878,040	887,940
Bond issuance costs	-	-	140,426	140,426
Underwriter's discount	-	-	72,313	72,313
Interdistrict	388,007	-	-	388,007
Total Expenditures	11,331,712	2,224,073	2,676,052	16,231,837
Excess (Deficiency) of Revenues Over Expenditures	469,584	(2,200,933)	(650,332)	(2,381,681)
Other Financing Sources (Uses)				
Bond proceeds	-	-	13,370,000	13,370,000
Bond premium	-	-	232,091	232,091
Loan proceeds	-	-	405,450	405,450
Transfers in	-	-	272,201	272,201
Transfers out	(272,201)	-	-	(272,201)
Bond discount	-	-	(110,964)	(110,964)
Payments to escrow agent	-	-	(13,323,408)	(13,323,408)
Total Other Financing Sources (Uses)	(272,201)	-	845,370	573,169
Net Change In Fund Balances	197,383	(2,200,933)	195,038	(1,808,512)
Fund Balances, Beginning of Year	1,101,305	2,200,938	612,550	3,914,793
Fund Balances, End of Year	\$1,298,688	\$ 5	\$ 807,588	\$ 2,106,281

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2006

Net change in fund balances - total governmental funds \$ (1,808,512)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and the cost is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital outlays	\$ 2,270,622	
Depreciation expense	<u>(1,336,280)</u>	934,342

As some delinquent personal property taxes will not be collected for several years after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds, and are instead counted as deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities. (1,673)

Proceeds from the sale of bonds or loans are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets. (13,882,358)

Net bond premium and refunding and issuance costs are not expensed but amortized over the life of the new bond issue. 630,020

Repayment of long term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities:

Repayment of bonds	13,615,365	
Repayment of installment purchase agreements	<u>112,999</u>	13,728,364

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues regardless of when it is paid. 18,035

In the Statement of Net Assets, severance pay and early retirement incentive are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits used/paid (\$80,631) exceeded the amounts earned (\$9,450).

71,181

Total changes in net assets - governmental activities \$ (310,601)

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Local sources	\$ 677,029	\$ 677,774	\$ 722,044	\$ 44,270
State sources	9,376,050	9,627,602	9,646,965	19,363
Federal sources	659,302	657,042	643,400	(13,642)
Interdistrict sources	573,000	715,890	788,887	72,997
Total Revenues	<u>11,285,381</u>	<u>11,678,308</u>	<u>11,801,296</u>	<u>122,988</u>
Expenditures				
Current:				
Instruction:				
Basic programs	5,661,673	5,729,190	5,664,996	64,194
Added needs	1,299,712	1,227,353	1,187,763	39,590
Supporting services:				
Pupil services	218,730	275,072	275,534	(462)
Instructional staff services	475,503	329,312	326,651	2,661
General administrative services	261,088	276,693	265,706	10,987
School administrative services	544,714	564,261	551,366	12,895
Business services	181,751	211,448	204,938	6,510
Operation and maintenance services	1,248,131	1,274,944	1,266,674	8,270
Pupil transportation services	725,306	778,476	732,718	45,758
Central services	-	142,651	138,790	3,861
Community services	202,786	196,833	205,670	(8,837)
Debt service:				
Principal repayment	113,000	113,000	112,999	1
Interest and fiscal charges	14,940	9,940	9,900	40
Interdistrict	468,745	381,585	388,007	(6,422)
Total Expenditures	<u>11,416,079</u>	<u>11,510,758</u>	<u>11,331,712</u>	<u>179,046</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>(130,698)</u>	<u>167,550</u>	<u>469,584</u>	<u>302,034</u>
Other Financing Sources (Uses)				
Transfers out	(216,825)	(240,000)	(272,201)	(32,201)
Net Change In Fund Balances	<u>(347,523)</u>	<u>(72,450)</u>	<u>197,383</u>	<u>269,833</u>
Fund Balances, July 1	<u>1,101,305</u>	<u>1,101,305</u>	<u>1,101,305</u>	<u>-</u>
Fund Balances, June 30	<u>\$ 753,782</u>	<u>\$ 1,028,855</u>	<u>\$ 1,298,688</u>	<u>\$ 269,833</u>

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2006

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
Assets		
Cash equivalents, deposits and investments (Note B)	<u>\$ 44,527</u>	<u>\$ 123,953</u>
Liabilities		
Due to student groups	<u>-</u>	<u>\$ 123,953</u>
Net Assets		
Held in trust for: Individuals and organizations	<u>\$ 44,527</u>	

See accompanying notes to basic financial statements.

KENT CITY COMMUNITY SCHOOLS
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the year ended June 30, 2006

	Private Purpose Trust Fund
Additions	
Donations	\$ 11,004
Interest earnings	911
	<hr/>
Total Additions	11,915
	<hr/>
Deductions	
Endowment activities - scholarships	12,399
	<hr/>
Change In Net Assets	(484)
	<hr/>
Net Assets, Beginning of Year	45,011
	<hr/>
Net Assets, End of Year	\$ 44,527
	<hr/> <hr/>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Note A – Summary of Significant Accounting Policies

Kent City Community Schools was organized under the School Code of the State of Michigan and services a population of approximately 1,441 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, preschool programs, athletic activities, special education, vocational education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Kent City Community Schools (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the District’s accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. District-Wide and Fund Financial Statements

District-Wide Financial Statements - The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund and the 2001 Construction Capital Projects Fund are the District's major funds. Non-major funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

General Fund—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service and Athletic Funds.

Debt Service Funds—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

Capital Projects Funds—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designed for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of Section 1351a of the State of Michigan's School Code. For capital project activities funded with sinking fund millage, the District has complied with the applicable provisions of Section 1212 (I) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Fiduciary Fund net assets and results of operations are not included in the district-wide financial statements. Fiduciary funds are reported using the economic resources measurement focus. The District presently maintains scholarship funds for the benefit of students.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the district-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Kent City Community Schools has also adopted budgets for its Special Revenue Funds. A school district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at the end of the fiscal year.

Kent City Community Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventory

Inventories are valued at cost (first-in, first-out). Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

8. Capital Assets

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$2,500 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, buildings and additions, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10-20 years
Buildings and additions	15-50 years
Vehicles	5-10 years
Furniture and equipment	3-10 years

9. Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

10. Early Retirement Incentive/Severance Pay

Early retirement incentive and severance pay at June 30, 2006 has been computed and recorded in the basic financial statements of the District. Eligible District employees who retire and/or select early retirement are entitled to a termination leave payment based on their age and years of service. At June 30, 2006, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for early retirement incentive and severance pay amounted to \$152,262 and \$100,100, respectively.

11. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

12. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

13. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents, Deposits and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- United States or federal obligation repurchase agreements.
- Banker's acceptances of United States Banks.
- Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.
- Surplus funds investment pools.

Balances at June 30, 2006 related to cash equivalents, deposits and investments are detailed in the Basic Financial Statements as follows:

Statement of Net Assets:	
Governmental activities	\$ 2,357,639
 Fiduciary Funds:	
Trust and Agency Funds	<u>168,480</u>
	<u>\$ 2,526,119</u>

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Cash Equivalents

Depositories actively used by the District during the year are detailed as follows:

1. Valley Ridge Bank

Cash equivalents consist of bank public funds checking and money market accounts and deposits consist of certificates of deposits.

June 30, 2006 balances are detailed as follows:

Cash equivalents	\$ 450,637
Deposits	<u>584,513</u>
	<u>\$ 1,035,150</u>

Custodial credit risk

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits were \$1,035,150 and the bank balance was \$1,063,162. Of the bank balance, \$100,000 was covered by federal depository insurance and \$963,162 was uninsured.

Investments

As of June 30, 2006 the District had the following investments:

	<u>Fair Value</u>
Bank Investment Pool Accounts:	
Fifth Third Bank	\$ 69,943
Michigan Liquid Asset Fund Plus	<u>1,421,026</u>
	<u><u>\$ 1,490,969</u></u>

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimizes custodial credit risk by limiting investments to the types of securities allowed by law.

Credit Risk

The District's investments in the bank and Michigan Liquid Asset Fund investment pools were unrated.

Interest Rate Risk

The District minimizes interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Concentration of Credit Risk

The District's investment policy places no restrictions on the amount or percentage that may be invested in any one type of security.

Foreign Currency Risk

The District is not authorized to invest in investments which have this type of risk.

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts. The amount of 2005 ad valorem State Education Taxes generated within the Kent City Community School District, and paid to the State of Michigan, totaled \$964,288.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February, 2005 and September, 2005. The 2005-06 "Foundation Allowance" for Kent City Community Schools was \$6,875 for 1,428 "Full Time Equivalent" students, generating \$9,694,454 in state aid payments to the District, of which \$1,749,283 was paid to the District in July and August, 2006 and included in "Due From Other Governmental Units" of the General Fund and Food Service Special Revenue Fund of the District.

Property taxes for the District are levied July 1 by the Townships of Solon, Sparta, Tyrone, Casnovia, Grant and Chester. The taxes are then collected by each governmental unit and remitted to the District. The Counties of Kent, Muskegon, Newaygo and Ottawa, through their Delinquent Tax Revolving Funds, advance all delinquent real property taxes at March 1 to the District each year prior to June 30. Delinquent personal property taxes receivable are detailed as follows:

Year	General Fund	Debt Service Funds	Building and Site Fund	Total
2005	\$ 843	\$ 393	\$ 47	\$ 1,283
2004	1,224	566	67	1,857
2003	3,354	1,594	186	5,134
	<u>\$ 5,421</u>	<u>\$ 2,553</u>	<u>\$ 300</u>	<u>\$ 8,274</u>

Taxes receivable are offset by deferred revenue in the General, Debt Service and Building and Site Funds of the District. Taxes uncollected after three years from the date of levy are written off the books of the District.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

Kent City Community Schools' electors previously (June, 1999) approved a ten year operating millage extension for the 18 mill non-homestead property tax. Only 17.7084 mills were levied in 2005 due to reductions caused by the Headlee Amendment.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

The District levied 8.25 mills in 2005 for debt service purposes and 1.0 mill for the building and site (sinking) fund, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A, taxable property is now divided into two categories: homestead and non-homestead.

Homestead property is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage", nor any additional voted millage for the retirement of debt.

Non-homestead property is considered to be all property not qualifying for a homestead exemption, which includes all commercial and industrial property. Non-homestead property is subject to all District levies.

Note D – Interfund Receivables/Payables and Transfers

Amounts due from (to) other funds, representing short-term interfund receivables and payables for year end expenditure reimbursements and property tax allocations at June 30, 2006, are detailed as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund:		
Special Revenue Funds:		
Athletics Fund	\$ 10,284	\$ —
Debt Service Funds:		
1997 Debt Service Fund	103	3,100
2001 Debt Service Fund	104	1,849
2005 Debt Service Fund	—	598
Capital Projects Funds:		
Building and Site Fund	—	673
	10,491	6,220
Special Revenue Funds:		
Athletics Fund:		
General Fund	—	10,284
Debt Service Funds:		
1997 Debt Service Fund:		
General Fund	3,100	103
Building and Site Fund	169	
2001 Debt Service Fund:		
General Fund	1,849	104
Building and Site Fund	1,251	
2005 Debt Service Fund:		
General Fund	598	—
	\$ 6,967	\$ 207

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

	<u>Due From</u>	<u>Due To</u>
Capital Projects Funds:		
Building and Site Fund:		
General Fund	\$ 673	\$ —
Debt Service Funds:		
1997 Debt Service Fund	—	169
2001 Debt Service Fund	—	1,251
	<u>673</u>	<u>1,420</u>
Total All Funds	<u><u>\$ 18,131</u></u>	<u><u>\$ 18,131</u></u>

Transfers between funds during the year ended June 30, 2006 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Special Revenue Funds:		
Food Service Fund	\$ —	\$ 60,649
Athletics Fund	—	211,552
	<u>—</u>	<u>272,201</u>
Special Revenue Funds:		
Food Service Fund:		
General Fund	60,649	—
Athletics Fund:		
General Fund	211,552	—
	<u>272,201</u>	<u>—</u>
Total All Funds	<u><u>\$ 272,201</u></u>	<u><u>\$ 272,201</u></u>

The General Fund transfers were made to support the District food service and athletic programs for the fiscal year.

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balances July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2006</u>
Capital assets not depreciated:				
Land	\$ 57,486	\$ —	\$ —	\$ 57,486
Construction in progress	13,039,035	—	13,039,035	—
Capital assets being depreciated:				
Land improvements	1,914,952	—	—	1,914,952
Buildings and additions	15,521,373	15,286,985	—	30,808,358
Furniture and equipment	1,111,377	—	24,512	1,086,865
Vehicles	1,339,188	22,672	—	1,361,860
	<u>32,983,411</u>	<u>15,309,657</u>	<u>13,063,547</u>	<u>35,229,521</u>
Totals at historical cost	<u>32,983,411</u>	<u>\$ 15,309,657</u>	<u>\$ 13,063,547</u>	<u>35,229,521</u>

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

	Balances July 1, 2005	Additions	Deductions	Balances June 30, 2006
Less accumulated depreciation for:				
Land improvements	\$ 647,320	\$ 106,847	\$ —	\$ 754,167
Buildings and additions	7,699,972	952,884	—	8,652,856
Furniture and equipment	151,184	97,444	24,512	224,116
Vehicles	767,922	179,105	—	947,027
	<u>9,266,398</u>	<u>\$ 1,336,280</u>	<u>\$ 24,512</u>	<u>10,578,166</u>
Total accumulated depreciation				
	<u>9,266,398</u>	<u>\$ 1,336,280</u>	<u>\$ 24,512</u>	<u>10,578,166</u>
Net Capital Assets	<u><u>\$ 23,717,013</u></u>			<u><u>\$ 24,651,355</u></u>

Depreciation expense was charged to District activities as follows:

Governmental activities:	
Instruction	\$ 560,664
Supporting services	524,373
Community services	48,926
Food service	25,124
Athletics	56,860
Unallocated	<u>120,333</u>
	<u><u>\$ 1,336,280</u></u>

Note F – Short-term Debt

The \$905,000 August 20, 2004 state aid anticipation loan was repaid on August 20, 2005. On August 19, 2005, the District borrowed \$963,000 in anticipation of state aid (interest at 2.92%), due in full on August 18, 2006. Total interest cost on the loans was \$26,330 for the fiscal year.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Note G – Long-term Debt

Amounts available and to be provided for outstanding long-term debt at June 30, 2006 are summarized as follows:

	General Obligation Bonds	Durant Non-plaintiff Bonds	State School Bond Loan	Installment Purchase Agreements	Severance/ Early Retirement Incentive Pay	Total
Amount Available For Retirement Of Long-Term Debt						
Debt Service Funds	\$ 142,567	\$ —	\$ —	\$ —	\$ —	\$ 142,567
Amounts To Be Provided For Retirement Of Long-Term Debt						
State of Michigan	—	187,428	—	—	—	187,428
General Fund	—	—	—	180,061	252,362	432,423
Debt Service Funds	22,162,433	—	2,997,509	—	—	25,159,942
Total Amounts Available and To Be Provided	\$22,305,000	\$ 187,428	\$2,997,509	\$ 180,061	\$ 252,362	\$25,922,360

Changes in long-term debt for the year ended June 30, 2006 are summarized as follows:

	Debt Outstanding July 1, 2005	Debt Added	Debt Retired	Debt Outstanding June 30, 2006
General obligation bonds:				
August 1, 1997	\$ 5,135,000	\$ —	\$ 4,770,000	\$ 365,000
November 1, 2001	17,400,000	—	8,830,000	8,570,000
August 4, 2005	—	4,370,000	—	4,370,000
February 7, 2006	—	9,000,000	—	9,000,000
Durant non-plaintiff bonds:				
November 13, 1998	202,793	—	15,365	187,428
State school bond loan	2,485,151	512,358	—	2,997,509
Installment purchase agreements	293,060	—	112,999	180,061
Severance pay	95,150	9,450	4,500	100,100
Early retirement incentive	228,393	—	76,131	152,262
	\$ 25,839,547	\$13,891,808	\$ 13,808,995	\$ 25,922,360

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Long-term bonds, notes and installment purchase agreements at June 30, 2006 are comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
General Obligation Bonds				
\$7,690M Building and Site August 1, 1997: Annual maturity of \$365M	May 1, 2007	4.875	\$ 365,000	\$ 365,000
\$18,150M Building and Site November 1, 2001: Annual maturities of \$350M to \$750M	May 1, 2020	4.125 – 4.80	8,570,000	500,000
\$4,370M Refunding Dated August 4, 2005: Annual maturities of \$360M to \$365M	May 1, 2019	3.25 – 5.00	4,370,000	—
\$9,000M Refunding February 7, 2006: Annual maturities of \$25M to \$765M	May 1, 2031	3.125 – 4.375	9,000,000	25,000
Durant Non-plaintiff Bonds				
\$900,023 School Improvement Dated November 13, 1998: Annual maturities of \$15M to \$76M	May 15, 2013	4.761353	187,428	16,092
Installment Purchase Agreements				
School Buses:				
\$109,118 September 21, 2001	Sep. 21, 2006	5.22	12,230	12,230
\$157,570 July 18, 2002	July 17, 2007	3.875	47,271	31,514
\$55,400 December 18, 2002	Dec. 18, 2007	3.55	17,655	11,666
\$116,238 August 18, 2003	Aug. 18, 2008	3.29	60,489	23,605
\$59,100 August 19, 2004	Aug. 19, 2009	3.44	42,416	11,607
			<u>\$ 22,672,489</u>	<u>\$ 996,714</u>

The District is required to obtain loans from the Michigan School Bond Loan Fund (the “Fund”) for the payment of the annual maturities of its general obligation bonds. There is no fixed maturity schedule for the repayment of these loans. Instead, the principal and interest are payable when taxes levied for debt service are no longer needed to retire bonded debt. During the year, the District borrowed \$405,450 from the Fund and \$106,908 of accrued interest was added to the District’s liability to the Fund. At June 30, 2006, the District owed the Fund a total of \$2,997,509.

The annual requirements to pay principal and interest on long-term bonds and installment purchase agreements outstanding are as follows:

Year Ended June 30	Principal	Interest	Total
2007	\$ 996,714	\$ 969,981	\$ 1,966,695
2008	1,010,006	927,496	1,937,502
2009	982,588	889,879	1,872,467
2010	1,052,208	877,039	1,929,247
2011	989,388	806,798	1,796,186

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Year Ended June 30	Principal	Interest	Total
2012	\$ 990,309	\$ 762,176	\$ 1,752,485
2013	991,276	717,472	1,708,748
2014	1,025,000	672,684	1,697,684
2015	1,075,000	625,951	1,700,951
2016	1,125,000	576,351	1,701,351
2017	1,125,000	527,364	1,652,364
2018	1,130,000	477,651	1,607,651
2019	1,130,000	427,014	1,557,014
2020	765,000	376,014	1,141,014
2021	765,000	341,654	1,106,654
2022	760,000	311,054	1,071,054
2023	760,000	280,654	1,040,654
2024	755,000	250,254	1,005,254
2025	745,000	220,054	965,054
2026	765,000	190,254	955,254
2027	760,000	158,889	918,889
2028	755,000	127,349	882,349
2029	745,000	95,638	840,638
2030	740,000	63,976	803,976
2031	735,000	32,156	767,156
	<u>\$ 22,672,489</u>	<u>\$ 11,705,802</u>	<u>\$ 34,378,291</u>

On August 4, 2005, the District issued \$4,370,000 in general obligation bonds with an average interest rate of 3.76231% to advance refund \$4,405,000 of outstanding 1997 general obligation bonds resulting in a net present value savings of \$220,611. The net proceeds (\$4,559,982 after the net premium of \$232,091, District contribution of \$45,000 and payment of \$87,109 in underwriting fees, insurance and other issuance costs) were deposited with an escrow agent and used to purchase United States government securities. Under the terms of the agreement these securities, together with the interest earned to maturity, will be sufficient to pay principal and interest as it becomes due. This procedure relieves the District from being primarily liable for the debt and the District is virtually assured of not being required to make further payments with respect to the debt. These funds are not commingled with other funds and cannot be redeemed prior to maturity. Any excess funds will be returned to the District upon final payment of principal and interest (Scheduled to be May 1, 2007). This defeasance procedure allows the District to remove the related assets and liabilities from its financial statements, which it has done. The assets, now held by the escrow agent to be used for the remaining principal and interest due of \$4,623,516 on the defeased debt at June 30, 2006 are detailed in the following schedule:

	Cost	Market Value	Par Value
U.S. Government Securities	\$ 4,341,466	\$ 4,341,466	\$ 4,341,466

On February 7, 2006, the District issued \$9,000,000 in general obligation bonds with an average interest rate of 4.258412% to advance refund \$8,125,000 of outstanding 2001 general obligation bonds resulting in a net present value savings of \$418,026. The net proceeds (\$8,763,426 after the discount of \$110,964 and payment of \$125,610 in underwriting fees, insurance and other issuance costs) were deposited with an escrow agent and used

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

to purchase United States government securities. Under the terms of the agreement these securities, together with the interest earned to maturity, will be sufficient to pay principal and interest as it becomes due. This procedure relieves the District from being primarily liable for the debt and the District is virtually assured of not being required to make further payments with respect to the debt. These funds are not commingled with other funds and cannot be redeemed prior to maturity. Any excess funds will be returned to the District upon final payment of principal and interest (Scheduled to be May 1, 2011). This defeasance procedure allows the District to remove the related assets and liabilities from its financial statements, which it has done. The assets, now held by the escrow agent to be used for the remaining principal and interest due of \$10,450,700 on the defeased debt at June 30, 2006 are detailed in the following schedule:

	<u>Cost</u>	<u>Market Value</u>	<u>Par Value</u>
U.S. Government Securities	<u>\$ 8,639,533</u>	<u>\$ 8,639,533</u>	<u>\$ 8,639,533</u>

Note H – Retirement Plan

Substantially all District employees participate in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan. The District's payroll for employees covered by MPERS for the year ended June 30, 2006 was \$6,470,667. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

School districts in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPERS plan. The contribution rate was 14.87% for the fiscal year ending September 30, 2005 and 16.34% for the fiscal year beginning October 1, 2005. The District's contributions to the plan for the fiscal years ended June 30, 2006, 2005 and 2004 were \$1,047,060, \$976,856 and \$898,238, respectively.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPERS does not make separate measurements of assets and actuarial accrued liability for individual schools. The actuarial accrued liability at September 30, 2004 (the latest reporting date available expressed as \$ in millions) for the MPERS as a whole, determined through an actuarial valuation performed as of that date, was \$46,317. The MPERS' net assets available for benefits on that date were \$38,784 leaving an unfunded pension benefit obligation of \$7,533. Ten year historical trend information showing the MPERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2005 Annual Report of the MPERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

KENT CITY COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

The total actuarial accrued liability (expressed as \$ in millions) increased by \$1,548 from September 30, 2003 to September 30, 2004. Not included in the pension benefit obligation above is any future obligation attributable to health, dental and vision insurance benefits which are funded on a cash disbursement basis. With the passage of Act 279 of 1996, making permanent the cash basis financing of health, dental and vision benefits, actuarially calculated liabilities for these benefits are no longer disclosed on the balance sheets.

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan (MIP). Effective January 1, 1990, all new employees are automatically enrolled in MIP. Participants in MIP, who receive benefits in addition to those available under the Basic Plan, contribute a percentage of salary. The graduated contribution rate is based on total wages and is calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. MIP members may retire at any age with 30 years of service, or at age 60 with 5 years of service, with benefits based on a final average compensation period of 3 years.

Post-employment benefits for health, dental, and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS as discussed above.

Note I – Risk Management and Benefits

The District is a member of the West Michigan Risk Management Trust, a self-insurance program with districts pooling together to insure property, liability and auto exposure. Premiums from members of the Trust are determined through standard underwriting procedures. The members of the Trust have contributed amounts sufficient to fund individual and aggregate losses up to \$175,000 and \$650,000, respectively, on an annual basis. Excess insurance has been purchased to cover claims exceeding those amounts. A \$1,000 per occurrence deductible for property losses is maintained. The District paid \$56,848 in premiums to the Trust for the year ended June 30, 2006.

The District is also a member of the West Michigan Workers' Compensation Fund, a self-insurance program with districts pooling together to insure workers' compensation and employers' liability exposures. The Fund pays the first \$300,000 of any workers' compensation or employers' liability loss out of an \$800,000 loss fund collected from members. Excess insurance has been purchased to cover claims exceeding those amounts. As of June 30, 2006, there were no material pending claims against the District. The District paid \$64,665 in premiums to the Fund for the year ended June 30, 2006.

Health, life and other employee insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note J – Stewardship, Compliance and Accountability

The following District fund had actual expenditures exceed final budgeted expenditures for the year ended June 30, 2006, as follows:

	Budget	Actual	Unfavorable Variance
Food Service Fund	\$ 431,850	\$ 467,398	\$ 35,548

SUPPLEMENTAL INFORMATION

GENERAL FUND

To account for resources which are traditionally associated with the general operation of the District and not required to be accounted for in another fund.

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Balance Sheet
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash	\$ 100	\$ 100
Cash equivalents, deposits and investments	1,554,947	1,239,517
Taxes receivable	5,421	6,447
Due from other funds	10,491	3,200
Due from other governmental units	1,986,127	1,805,665
Prepaid expenditures	10,181	-
Total Assets	<u><u>\$ 3,567,267</u></u>	<u><u>\$ 3,054,929</u></u>
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 225,080	\$ 178,064
State aid anticipation loan payable	963,000	905,000
Due to other funds	6,220	14,556
Due to other governmental units	465,326	249,184
Payroll withholdings payable	10,248	1,087
Accrued interest payable	28,041	15,880
Salaries payable	530,155	583,406
Deferred revenue	40,509	6,447
Total Liabilities	<u>2,268,579</u>	<u>1,953,624</u>
Fund Balances		
Unreserved:		
Undesignated	<u>1,298,688</u>	<u>1,101,305</u>
Total Liabilities and Fund Balances	<u><u>\$ 3,567,267</u></u>	<u><u>\$ 3,054,929</u></u>

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2006 and 2005

	2006	2005
Local sources:		
Property taxes:		
Current property taxes	\$ 522,698	\$ 500,150
Delinquent property taxes	12	-
Other property taxes	24	24
Interest on delinquent taxes	2,339	1,855
	<u>525,073</u>	<u>502,029</u>
Interest earnings:		
Interest on deposits and investments	46,757	22,368
Other local revenue:		
Community enrichment fees	32,438	43,508
Preschool/childcare fees	8,470	11,616
Drivers education	20,392	17,313
Transportation fees	1,500	3,010
Pool receipts	28,497	7,255
Sale of school property	7,385	3,740
Rental of school facilities	3,427	3,124
Refunds of expenditures	35,677	20,000
Miscellaneous	12,428	8,204
	<u>150,214</u>	<u>117,770</u>
Total local sources	<u>722,044</u>	<u>642,167</u>
State sources:		
State aid	9,645,790	9,282,044
School improvement	1,175	1,175
Total state sources	<u>9,646,965</u>	<u>9,283,219</u>
Federal sources:		
Title I	126,681	107,802
Title I - Migrant	170,932	193,506
Title IIA	56,451	56,290
Title IID	2,454	3,069
Title III - Migrant	10,626	9,270
Title V	573	880
Summer food program	19,831	23,914
I.D.E.A. program	247,817	248,636
Medicaid - school based	4,345	569
Drug free schools	3,690	4,330
Total federal sources	<u>643,400</u>	<u>648,266</u>
Interdistrict sources:		
Special education - county	616,775	561,947
Special education - other districts	15,044	24,632
Special education - itinerants	26,449	-
Durant settlement reimbursements	3,379	5,203
Medicaid reimbursement	110,575	7,507
Career preparation	-	11,476
Other	16,665	12,631
Total interdistrict sources	<u>788,887</u>	<u>623,396</u>
Total Revenues	<u><u>\$ 11,801,296</u></u>	<u><u>\$ 11,197,048</u></u>

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Current:		
Instruction:		
Basic programs:		
Elementary:		
Salaries:		
Teachers	\$ 1,503,530	\$ 1,600,056
Paraprofessionals	59,575	56,851
Substitutes	26,456	27,520
Employee benefits:		
Employee insurance	318,791	328,860
Early retirement incentive	8,180	90,314
Tuition reimbursement	2,290	4,350
Retirement	257,616	248,609
Social Security	125,021	131,329
Workers' compensation insurance	6,600	6,850
Unemployment compensation	25,065	9,187
Cash in lieu of benefits	27,584	26,736
Workshops and conferences	515	(128)
Equipment repair and maintenance	120	485
Equipment rental	16,520	10,758
Teaching supplies	18,255	27,459
Textbooks	13,458	14,057
Miscellaneous	1,134	172
	2,410,710	2,583,465
Middle school:		
Salaries:		
Teachers	834,697	827,818
Paraprofessionals	7,691	-
Substitutes	13,355	6,053
Employee benefits:		
Employee insurance	181,938	138,314
Early retirement incentive	35,979	30,780
Retirement	139,218	123,243
Social Security	64,526	63,328
Workers' compensation insurance	3,190	2,615
Cash in lieu of benefits	1,577	237
Workshops and conferences	387	-
Printing and binding	110	-
Equipment rental	3,721	-
Teaching supplies	17,271	11,131
Textbooks	150	2,110
Dues and fees	305	-
Miscellaneous	272	-
	1,304,387	1,205,629
High school:		
Salaries:		
Teachers	1,127,340	1,160,412
Paraprofessionals	37,133	34,399
Substitutes	31,175	23,917

(Continued)

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
High school: (Continued)		
Employee benefits:		
Employee insurance	\$ 285,099	\$ 276,654
Early retirement incentive	35,979	31,142
Tuition reimbursement	4,978	4,040
Retirement	192,462	178,634
Social Security	91,630	93,465
Workers' compensation insurance	5,085	3,615
Unemployment compensation	9,049	3,620
Cash in lieu of benefits	12,767	13,654
Local travel	116	153
Workshops and conferences	583	1,141
Dual enrollment tuition	2,914	5,181
Equipment repair and maintenance	1,661	2,264
Equipment rental	9,181	8,090
Other purchased services	4,900	4,595
Teaching supplies	28,633	27,584
Textbooks	11,357	1,744
Dues and fees	3,645	2,686
Miscellaneous	454	311
	<u>1,896,141</u>	<u>1,877,301</u>
Preschool:		
Salaries:		
Teachers	20,554	15,237
Paraprofessionals	11,410	9,477
Substitutes	318	150
Employee benefits:		
Retirement	5,247	3,692
Social Security	2,469	1,902
Local travel	150	146
Workshops and conferences	625	400
Teaching supplies	5,555	6,947
	<u>46,328</u>	<u>37,951</u>
Driver education:		
Teachers salaries	5,993	15,460
Employee benefits:		
Retirement	979	2,269
Social Security	458	1,183
	<u>7,430</u>	<u>18,912</u>
Total basic programs	5,664,996	5,723,258
Added needs:		
Special education:		
Salaries:		
Teachers	514,697	557,406
Teaching assistants	22,131	35,930
Substitutes	9,241	4,156
Employee benefits:		
Employee insurance	125,238	129,902
Tuition reimbursement	4,032	2,657

(Continued)

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Special education: (Continued)		
Employee benefits:		
Retirement	\$ 88,241	\$ 85,437
Social Security	42,397	46,392
Workers' compensation insurance	1,600	7,940
Cash in lieu of benefits	13,735	13,411
Workshops and conferences	865	40
Contracted services	111	3,596
Teaching supplies	1,400	1,811
Textbooks	-	716
	<u>823,688</u>	<u>889,394</u>
Compensatory education:		
Salaries:		
Teachers	193,266	192,563
Paraprofessionals	54,482	49,996
Substitutes	600	637
Employee benefits:		
Employee insurance	34,378	36,976
Retirement	44,325	39,130
Social Security	22,461	22,083
Workers' compensation insurance	175	175
Unemployment compensation	4,224	2,652
Local travel	54	315
Workshops and conferences	929	508
Medical services	340	340
Teaching supplies	6,588	4,972
Dues and fees	2,221	2,392
Miscellaneous	32	135
	<u>364,075</u>	<u>352,874</u>
Total added needs	1,187,763	1,242,268
Supporting services:		
Pupil services:		
Guidance services:		
Salaries:		
Counselors	140,045	138,122
Clerical	-	822
Employee benefits:		
Employee insurance	31,750	28,469
Retirement	22,580	20,330
Social Security	10,713	10,629
Workers' compensation insurance	350	670
Testing services	10,073	6,957
Other supplies	115	-
	<u>215,626</u>	<u>205,999</u>
Health services:		
Nursing salaries	919	3,326
Employee benefits:		
Retirement	150	209
Social Security	70	108
	<u>1,139</u>	<u>3,643</u>

(Continued)

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
School psychologist services:		
Employee benefits:		
Employee insurance	\$ 5	\$ 1,067
Tuition reimbursement	-	1,452
Contracted services	29,777	-
Workshops and conferences	-	85
Teaching supplies	2,046	1,379
	<u>31,828</u>	<u>3,983</u>
Speech pathology services:		
Employee benefits:		
Employee insurance	2,562	2,066
Tuition reimbursement	-	530
Workshops and conferences	135	20
Supplies	1,443	436
	<u>4,140</u>	<u>3,052</u>
Social worker services:		
Social workers salaries	-	2,660
Employee benefits:		
Employee insurance	1,281	1,068
Retirement	-	396
Social Security	-	203
Local travel	400	182
Workshops and conferences	90	-
Supplies	511	808
	<u>2,282</u>	<u>5,317</u>
Teacher consulting services:		
Instruction consulting salaries	14,192	-
Employee benefits:		
Employee insurance	2,946	-
Retirement	2,295	-
Social Security	1,086	-
	<u>20,519</u>	<u>-</u>
Total pupil services	<u>275,534</u>	<u>221,994</u>
Instructional staff services:		
Improvement of instruction:		
Teacher mentor	-	1,338
Educational media services:		
Salaries:		
Librarians	68,032	64,056
Paraprofessionals	33,942	24,202
Employee benefits:		
Employee insurance	23,003	22,101
Retirement	16,510	13,015
Social Security	7,624	6,640
Workers' compensation insurance	245	395
Equipment repair and maintenance	461	957
Library books	9,303	8,660
Periodicals	2,697	1,307
Supplies	9,878	9,691
	<u>171,695</u>	<u>151,024</u>

(Continued)

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Special education supervision:		
Salaries:		
Director	\$ 74,477	\$ 73,196
Clerical	24,679	26,690
Employee benefits:		
Employee insurance	30,504	29,112
Retirement	15,838	14,476
Social Security	7,585	7,641
Workers' compensation insurance	255	255
Travel and expense	427	635
Workshops and conferences	195	280
Equipment repair and maintenance	646	738
Office supplies	260	839
Dues and fees	80	241
Miscellaneous	10	50
	<u>154,956</u>	<u>154,153</u>
Total instructional staff services	326,651	306,515
General administrative services:		
Board of education:		
Clerical salaries	1,000	1,000
Employee benefits:		
Retirement	163	149
Social Security	77	535
Management services	3,933	3,295
Legal services	8,694	7,470
Audit services	21,650	21,175
Other professional services	2,963	1,185
Workshops and conferences	275	480
Advertising	1,858	1,652
Printing and binding	17,522	16,702
Other purchased services	3,775	1,700
Office supplies	119	155
Dues and fees	3,025	3,002
Miscellaneous	6,593	7,125
	<u>71,647</u>	<u>65,625</u>
Executive administration:		
Salaries:		
Superintendent	90,750	83,775
Clerical	37,593	36,946
Employee benefits:		
Employee insurance	8,898	7,435
Tuition reimbursement	4,046	3,930
Retirement	19,779	17,635
Social Security	9,812	9,235
Workers' compensation insurance	320	460
Cash in lieu of benefits	6,000	6,000
Workshops and conferences	190	-
Mailing and postage	8,237	8,089
Equipment repair and maintenance	378	297

(Continued)

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Executive administration: (Continued)		
Equipment rental	\$ 3,984	\$ 4,425
Office supplies	2,118	1,659
Dues and fees	1,263	1,263
Miscellaneous	691	800
	<u>194,059</u>	<u>181,949</u>
Total general administrative services	265,706	247,574
School administrative services:		
Office of the principal:		
Salaries:		
Director	3,000	1,820
Principals	219,350	228,244
Clerical	121,646	130,774
Recruiters and aides	15,824	424
Employee benefits:		
Employee insurance	90,623	86,953
Tuition reimbursement	-	828
Retirement	54,291	49,359
Social Security	26,545	26,711
Workers' compensation insurance	660	2,520
Cash in lieu of benefits	12,000	6,000
Workshops and conferences	275	655
Equipment repair and maintenance	-	350
Other purchased services	2,212	2,394
Office supplies	1,097	1,682
Graduation/awards	1,773	1,451
Dues and fees	1,920	2,052
Miscellaneous	150	-
	<u>551,366</u>	<u>542,217</u>
Total school administrative services		
Business services:		
Fiscal services:		
Salaries:		
Business manager	68,376	61,623
Accounting	28,264	28,759
Employee benefits:		
Employee insurance	24,939	22,661
Tuition reimbursement	8,453	-
Retirement	15,421	13,137
Social Security	7,353	6,876
Workers' compensation insurance	245	315
Data processing services	4,559	3,625
Local travel	211	87
Workshops and conferences	445	85
Equipment repair and maintenance	134	-
Office supplies	1,344	1,211
Dues and fees	363	188
Miscellaneous	1,028	1,081
	<u>161,135</u>	<u>139,648</u>

(Continued)

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Other business services:		
Summer tax collection fees	\$ 4,886	\$ 4,664
Interest expense	26,330	14,169
Paying agent fees	4,111	3,719
Tax refunds	7,602	20,088
Property taxes	874	1,178
	<u>43,803</u>	<u>43,818</u>
Total business services	204,938	183,466
Operation and maintenance services:		
Operation and maintenance:		
Custodial salaries	360,567	394,023
Employee benefits:		
Employee insurance	118,576	130,933
Retirement	56,985	56,672
Social Security	27,630	29,898
Workers' compensation insurance	15,883	17,510
Unemployment compensation	7,641	3,287
Local travel	-	86
Workshops and conferences	105	69
Telephone	16,857	20,293
Water and sewer	61,561	48,493
Waste and trash disposal	12,065	11,177
Property and liability insurance	30,850	46,400
Building repair and maintenance	43,212	30,774
Grounds maintenance	11,042	8,511
Equipment repair and maintenance	1,890	5,046
Vehicle repair and maintenance	73	2,668
Heating	217,310	118,926
Electricity	221,231	162,409
Maintenance supplies	58,516	50,820
Uniforms	2,652	2,536
Miscellaneous	2,028	2,667
	<u>1,266,674</u>	<u>1,143,198</u>
Total operation and maintenance services		
Pupil transportation services:		
Pupil transportation:		
Salaries:		
Supervisor	40,619	39,946
Drivers	262,882	248,300
Mechanics	46,089	45,296
Employee benefits:		
Employee insurance	112,421	106,755
Employee physicals	1,755	1,818
Retirement	50,983	46,841
Social Security	24,352	23,296
Workers' compensation insurance	20,287	17,243
Cash in lieu of benefits	6,405	4,400
Contracted services	2,114	4,829
Workshops and conferences	162	787

(Continued)

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Pupil transportation: (Continued)		
Vehicle insurance	\$ 25,998	\$ 27,509
Equipment repair and maintenance	48	862
Vehicle repair and maintenance	14,489	17,683
Vehicle rental	1,500	6,330
Other purchased services	80	139
Gasoline, oil and grease	89,680	60,625
Tires, tubes and batteries	4,855	3,121
Garage supplies	2,640	3,452
Replacement buses	22,672	59,199
Miscellaneous	2,687	2,884
Total pupil transportation services	732,718	721,315
Central services:		
Technology support:		
Coordinator salary	61,321	60,266
Employee benefits:		
Employee insurance	14,902	13,649
Retirement	10,180	8,704
Social Security	4,896	4,610
Workers' compensation insurance	220	215
Staff training	1,550	380
Technical support	19,558	16,423
Workshops and conferences	1,440	-
Internet service provider	8,314	8,441
Equipment repair and maintenance	3,496	5,038
Computer and printer supplies	12,913	14,628
Total central services	138,790	132,354
Community services:		
Community pool:		
Salaries:		
Aquatics director	803	1,058
Teachers	3,437	6,064
Lifeguard	28,229	7,090
Clerical	38,202	56,059
Paraprofessionals	1,686	1,908
Employee benefits:		
Employee insurance	8,330	21,182
Retirement	1,881	7,482
Social Security	4,562	4,637
Workers' compensation insurance	3,850	1,560
Travel and expense	112	73
Advertising	-	183
Equipment repair and maintenance	1,240	1,308
Office supplies	238	504
Supplies	8,211	8,218
New equipment and furniture	-	4,318
	100,781	121,644

(Continued)

KENT CITY COMMUNITY SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Great Start:		
Salaries:		
Teachers	\$ 9,919	\$ 9,803
Paraprofessionals	5,367	4,780
Substitutes	105	375
Employee benefits:		
Retirement	2,451	2,205
Social Security	1,177	1,144
Teaching supplies	140	275
Supplies	25	-
	<u>19,184</u>	<u>18,582</u>
Summer food program - migrant:		
Food service salaries	5,671	6,307
Employee benefits:		
Retirement	843	529
Social Security	434	482
Supplies	1,569	1,363
Food	11,774	13,739
	<u>20,291</u>	<u>22,420</u>
Other community services:		
Travel and expense	4,200	4,200
Contracted services	61,214	17,734
	<u>65,414</u>	<u>21,934</u>
Total community services	205,670	184,580
Debt service:		
Principal repayment	112,999	133,218
Interest and fiscal charges:		
Interest expense	9,900	14,665
Total debt service	<u>122,899</u>	<u>147,883</u>
Interdistrict:		
Special education tuition	155,822	175,247
Itinerant services	232,185	281,270
Other	-	137
Total interdistrict	<u>388,007</u>	<u>456,654</u>
Total Expenditures	<u><u>\$ 11,331,712</u></u>	<u><u>\$ 11,253,276</u></u>

NONMAJOR FUNDS

KENT CITY COMMUNITY SCHOOLS
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2006

	Special Revenue	
	Food Service	Athletics
Assets		
Cash	\$ -	\$ 350
Cash equivalents, deposits and investments	4,066	20,879
Taxes receivable	-	-
Due from other funds	-	-
Due from other governmental units	25,715	-
Inventory	4,462	-
Total Assets	\$ 34,243	\$ 21,229
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 21,317	\$ 991
Due to other funds	-	10,284
Due to other governmental units	-	-
Deferred revenue	-	-
Total Liabilities	21,317	11,275
Fund balances		
Reserved for debt service	-	-
Reserved for capital outlay	-	-
Unreserved:		
Undesignated	12,926	9,954
Total Fund Balances	12,926	9,954
Total Liabilities and Fund Balances	\$ 34,243	\$ 21,229

Debt Service			Capital Projects	
1997	2001	2005	Building and Site	Total
\$ -	\$ -	\$ -	\$ -	\$ 350
47,729	65,144	15,321	649,548	802,687
1,242	1,269	42	300	2,853
3,269	3,100	598	673	7,640
4,074	5,809	861	1,310	37,769
-	-	-	-	4,462
<u>\$ 56,314</u>	<u>\$ 75,322</u>	<u>\$ 16,822</u>	<u>\$ 651,831</u>	<u>\$ 855,761</u>
\$ -	\$ -	\$ -	\$ 7,590	\$ 29,898
103	104	-	1,420	11,911
1,575	1,556	-	380	3,511
1,242	1,269	42	300	2,853
<u>2,920</u>	<u>2,929</u>	<u>42</u>	<u>9,690</u>	<u>48,173</u>
53,394	72,393	16,780	-	142,567
-	-	-	642,141	642,141
-	-	-	-	22,880
<u>53,394</u>	<u>72,393</u>	<u>16,780</u>	<u>642,141</u>	<u>807,588</u>
<u>\$ 56,314</u>	<u>\$ 75,322</u>	<u>\$ 16,822</u>	<u>\$ 651,831</u>	<u>\$ 855,761</u>

KENT CITY COMMUNITY SCHOOLS
Combining Schedule of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2006

	Special Revenue	
	Food Service	Athletics
Revenues		
Local sources:		
Property taxes	\$ -	\$ -
Interest earnings	77	74
Sales and admissions	195,723	58,220
Other local sources	-	-
Total local sources	195,800	58,294
State sources	16,600	-
Federal sources	192,730	-
Total Revenues	405,130	58,294
Expenditures		
Current:		
Food service	467,398	-
Athletics	-	270,345
Capital outlay	-	-
Debt service:		
Principal repayment	-	-
Interest and fiscal charges	-	-
Bond issuance costs	-	-
Underwriter's discount	-	-
Total Expenditures	467,398	270,345
Excess (Deficiency) of Revenues		
Over Expenditures	(62,268)	(212,051)
Other Financing Sources		
Bond proceeds	-	-
Loan proceeds	-	-
Bond premium	-	-
Transfers in	60,649	211,552
Bond discount	-	-
Payments to escrow agent	-	-
Total Other Financing Sources	60,649	211,552
Net Change In Fund Balances	(1,619)	(499)
Fund Balances, July 1	14,545	10,453
Fund Balances, June 30	\$ 12,926	\$ 9,954

Debt Service					Capital Projects Building and Site	Total
1997	2001	2005	2006	Durant		
\$ 448,277	\$ 751,485	\$ 145,069	\$ -	\$ -	\$ 163,005	\$ 1,507,836
4,615	4,325	710	-	-	18,930	28,731
-	-	-	-	-	-	253,943
-	-	3,589	-	-	-	3,589
452,892	755,810	149,368	-	-	181,935	1,794,099
-	-	-	-	22,291	-	38,891
-	-	-	-	-	-	192,730
452,892	755,810	149,368	-	22,291	181,935	2,025,720
-	-	-	-	-	-	467,398
-	-	-	-	-	-	270,345
-	-	-	-	-	17,165	17,165
365,000	450,000	-	-	15,365	-	830,365
36,730	605,739	142,588	86,057	6,926	-	878,040
59,816	80,610	-	-	-	-	140,426
27,313	45,000	-	-	-	-	72,313
488,859	1,181,349	142,588	86,057	22,291	17,165	2,676,052
(35,967)	(425,539)	6,780	(86,057)	-	164,770	(650,332)
4,370,000	9,000,000	-	-	-	-	13,370,000
-	309,393	10,000	86,057	-	-	405,450
232,091	-	-	-	-	-	232,091
-	-	-	-	-	-	272,201
-	(110,964)	-	-	-	-	(110,964)
(4,559,982)	(8,763,426)	-	-	-	-	(13,323,408)
42,109	435,003	10,000	86,057	-	-	845,370
6,142	9,464	16,780	-	-	164,770	195,038
47,252	62,929	-	-	-	477,371	612,550
\$ 53,394	\$72,393	\$ 16,780	\$ -	\$ -	\$ 642,141	\$ 807,588

KENT CITY COMMUNITY SCHOOLS
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Positive (Negative)</u>
Revenues			
Local sources:			
Interest earnings	\$ 50	\$ 77	\$ 27
Sales and admissions	195,350	195,723	373
Total local sources	195,400	195,800	400
State sources	18,540	16,600	(1,940)
Federal sources	182,000	192,730	10,730
Total Revenues	<u>395,940</u>	<u>405,130</u>	<u>9,190</u>
Expenditures			
Current:			
Food service	431,850	467,398	(35,548)
Excess (Deficiency) of Revenues Over Expenditures	<u>(35,910)</u>	<u>(62,268)</u>	<u>(26,358)</u>
Other Financing Sources			
Transfers in	25,000	60,649	35,649
Net Change In Fund Balances	(10,910)	(1,619)	9,291
Fund Balances, July 1	<u>14,545</u>	<u>14,545</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 3,635</u></u>	<u><u>\$ 12,926</u></u>	<u><u>\$ 9,291</u></u>

KENT CITY COMMUNITY SCHOOLS
Athletics Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Positive (Negative)</u>
Revenues			
Local sources:			
Interest earnings	\$ 70	\$ 74	\$ 4
Sales and admissions	57,365	58,220	855
Total Revenues	<u>57,435</u>	<u>58,294</u>	<u>859</u>
Expenditures			
Current:			
Athletics	274,211	270,345	3,866
Excess (Deficiency) of Revenues Over Expenditures	<u>(216,776)</u>	<u>(212,051)</u>	<u>4,725</u>
Other Financing Sources			
Transfers in	215,000	211,552	(3,448)
Net Change In Fund Balances	(1,776)	(499)	1,277
Fund Balances, July 1	<u>10,453</u>	<u>10,453</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 8,677</u></u>	<u><u>\$ 9,954</u></u>	<u><u>\$ 1,277</u></u>

SPECIAL REVENUE FUNDS

Food Service—to account for monies received from food service activities and federal subsidies for use in administering the hot lunch program of the District.

Athletics—to account for activity receipts and General Fund contributions used in administering the athletic program of the District.

KENT CITY COMMUNITY SCHOOLS
Food Service Special Revenue Fund
Comparative Balance Sheet
June 30, 2006 and 2005

Assets	<u>2006</u>	<u>2005</u>
Cash equivalents, deposits and investments	\$ 4,066	\$ 9,584
Due from other governmental units	25,715	3,500
Inventory	<u>4,462</u>	<u>2,649</u>
Total Assets	<u><u>\$ 34,243</u></u>	<u><u>\$ 15,733</u></u>
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	<u>\$ 21,317</u>	<u>\$ 1,188</u>
Fund Balances		
Unreserved:		
Undesignated	<u>12,926</u>	<u>14,545</u>
Total Liabilities and Fund Balances	<u><u>\$ 34,243</u></u>	<u><u>\$ 15,733</u></u>

KENT CITY COMMUNITY SCHOOLS
Food Service Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2006 and 2005

	2006	2005
Revenues		
Local sources:		
Sales and admissions:		
Children's lunches	\$ 147,567	\$ 117,849
Adult lunches	2,631	5,918
Ala carte	43,798	99,425
Other	1,727	209
	<u>195,723</u>	<u>223,401</u>
Interest earnings:		
Interest on deposits	77	83
Total local sources	<u>195,800</u>	<u>223,484</u>
State sources	16,600	12,014
Federal sources	<u>192,730</u>	<u>164,756</u>
Total Revenues	<u>405,130</u>	<u>400,254</u>
Expenditures		
Current:		
Food service:		
Food service salaries	153,537	129,727
Employee benefits:		
Employee insurance	18,210	19,589
Retirement	24,449	19,025
Social Security	11,548	9,433
Workers' compensation insurance	5,700	3,390
Cash in lieu of benefits	2,900	1,900
Local travel	182	85
Printing and binding	3,572	-
Equipment repair and maintenance	446	4,948
Other purchased services	54,262	-
Non-edible supplies	20,018	16,889
Food	167,428	214,721
Uniforms	1,092	1,053
Other supplies	3,970	-
New equipment and furniture	-	387
Miscellaneous	84	525
Total Expenditures	<u>467,398</u>	<u>421,672</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(62,268)</u>	<u>(21,418)</u>
Other Financing Sources		
Transfers in	<u>60,649</u>	<u>15,909</u>
Net Change In Fund Balances	(1,619)	(5,509)
Fund Balances, July 1	<u>14,545</u>	<u>20,054</u>
Fund Balances, June 30	<u><u>\$ 12,926</u></u>	<u><u>\$ 14,545</u></u>

KENT CITY COMMUNITY SCHOOLS
Athletics Special Revenue Fund
Comparative Balance Sheet
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash	\$ 350	\$ 350
Cash equivalents, deposits and investments	<u>20,879</u>	<u>13,568</u>
Total Assets	<u><u>\$ 21,229</u></u>	<u><u>\$ 13,918</u></u>
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 991	\$ 265
Due to other funds	<u>10,284</u>	<u>3,200</u>
Total Liabilities	<u>11,275</u>	<u>3,465</u>
Fund Balances		
Unreserved:		
Undesignated	<u>9,954</u>	<u>10,453</u>
Total Liabilities and Fund Balances	<u><u>\$ 21,229</u></u>	<u><u>\$ 13,918</u></u>

KENT CITY COMMUNITY SCHOOLS
Athletics Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2006 and 2005

	2006	2005
Revenues		
Local sources:		
Sales and admissions:		
Athletic admissions	\$ 41,844	\$ 34,490
Tournament fees	16,376	17,876
	58,220	52,366
Interest earnings:		
Interest on deposits	74	55
Total Revenues	58,294	52,421
Expenditures		
Current:		
Athletics:		
Salaries:		
Director	55,576	54,620
Coaches	125,030	121,693
Clerical	-	732
Employee benefits:		
Retirement	26,955	25,185
Social Security	14,275	14,003
Cash in lieu of benefits	-	6,000
Contracted services	300	-
Officials and game workers	21,586	18,774
Local travel	4,498	3,355
Workshops and conferences	-	75
Athletic insurance	1,068	1,068
Equipment repair and maintenance	282	-
Uniforms	5,828	4,592
First aid supplies	400	-
Office supplies	700	166
Other supplies and materials	4,719	5,153
Awards and trophies	1,647	808
Dues and fees	1,345	1,307
Tournament entry fees	5,556	7,011
Miscellaneous	580	730
Total Expenditures	270,345	265,272
Excess (Deficiency) of Revenues Over Expenditures	(212,051)	(212,851)
Other Financing Sources		
Transfers in	211,552	212,948
Net Change In Fund Balances	(499)	97
Fund Balances, July 1	10,453	10,356
Fund Balances, June 30	\$ 9,954	\$ 10,453

DEBT SERVICE FUNDS

To accumulate property tax revenues and interest earnings for repayment of the bond issues of the District used to finance new building construction projects.

KENT CITY COMMUNITY SCHOOLS
Debt Service Funds
Combining Balance Sheet
June 30, 2006

	<u>1997</u>	<u>2001</u>	<u>2005</u>
Assets			
Cash equivalents, deposits and investments	\$ 47,729	\$ 65,144	\$ 15,321
Taxes receivable	1,242	1,269	42
Due from other funds	3,269	3,100	598
Due from other governmental units	<u>4,074</u>	<u>5,809</u>	<u>861</u>
Total Assets	<u><u>\$ 56,314</u></u>	<u><u>\$ 75,322</u></u>	<u><u>\$ 16,822</u></u>
 Liabilities and Fund Balances			
Liabilities			
Due to other funds	\$ 103	\$ 104	\$ -
Due to other governmental units	1,575	1,556	-
Deferred revenue	<u>1,242</u>	<u>1,269</u>	<u>42</u>
Total Liabilities	<u>2,920</u>	<u>2,929</u>	<u>42</u>
Fund balances			
Reserved for debt service	<u>53,394</u>	<u>72,393</u>	<u>16,780</u>
Total Liabilities and Fund Balances	<u><u>\$ 56,314</u></u>	<u><u>\$ 75,322</u></u>	<u><u>\$ 16,822</u></u>

Totals	
2006	2005
\$ 128,194	\$ 88,331
2,553	3,129
6,967	22,072
10,744	2,909
<u>\$ 148,458</u>	<u>\$ 116,441</u>
\$ 207	\$ -
3,131	3,131
2,553	3,129
<u>5,891</u>	<u>6,260</u>
142,567	110,181
<u>\$ 148,458</u>	<u>\$ 116,441</u>

KENT CITY COMMUNITY SCHOOLS
Debt Service Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
For the year ended June 30, 2006

	1997	2001	2005	2006
Revenues				
Local sources:				
Property taxes:				
Current property taxes	\$ 441,607	\$ 740,296	\$ 142,919	\$ -
Industrial facilities taxes	1,307	2,191	423	-
Delinquent taxes	2	-	-	-
Other taxes	4,209	7,066	1,354	-
Interest on delinquent taxes	1,152	1,932	373	-
	<u>448,277</u>	<u>751,485</u>	<u>145,069</u>	<u>-</u>
Interest earnings:				
Interest on deposits	4,615	4,325	710	-
Other local sources:				
Refund of expenditures	-	-	3,589	-
State sources:				
State school aid	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>452,892</u>	<u>755,810</u>	<u>149,368</u>	<u>-</u>
Expenditures				
Debt service:				
Principal repayment	365,000	450,000	-	-
Interest and fiscal charges:				
Interest expense	35,588	604,605	142,548	86,037
Paying agent fees	215	217	40	20
Tax refunds	927	917	-	-
Bond issuance costs	59,816	80,610	-	-
Underwriter's discount	27,313	45,000	-	-
	<u>488,859</u>	<u>1,181,349</u>	<u>142,588</u>	<u>86,057</u>
Total Expenditures	<u>488,859</u>	<u>1,181,349</u>	<u>142,588</u>	<u>86,057</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(35,967)</u>	<u>(425,539)</u>	<u>6,780</u>	<u>(86,057)</u>
Other Financing Sources (Uses)				
Bond proceeds	4,370,000	9,000,000	-	-
Bond premium	232,091	-	-	-
Loan proceeds	-	309,393	10,000	86,057
Bond discount	-	(110,964)	-	-
Payments to escrow agent	(4,559,982)	(8,763,426)	-	-
	<u>(4,559,982)</u>	<u>(8,763,426)</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>42,109</u>	<u>435,003</u>	<u>10,000</u>	<u>86,057</u>
Net Change In Fund Balances	<u>6,142</u>	<u>9,464</u>	<u>16,780</u>	<u>-</u>
Fund Balances, July 1	<u>47,252</u>	<u>62,929</u>	<u>-</u>	<u>-</u>
Fund Balances, June 30	<u>\$ 53,394</u>	<u>\$ 72,393</u>	<u>\$ 16,780</u>	<u>\$ -</u>

Durant	Totals	
	2006	2005
\$ -	\$ 1,324,822	\$ 1,254,470
-	3,921	2,909
-	2	-
-	12,629	-
-	3,457	3,182
-	1,344,831	1,260,561
-	9,650	2,876
-	3,589	-
22,291	22,291	-
22,291	1,380,361	1,263,437
15,365	830,365	715,000
6,926	875,704	1,097,573
-	492	432
-	1,844	7,115
-	140,426	-
-	72,313	-
22,291	1,921,144	1,820,120
-	(540,783)	(556,683)
-	13,370,000	-
-	232,091	-
-	405,450	567,278
-	(110,964)	-
-	(13,323,408)	-
-	573,169	567,278
-	32,386	10,595
-	110,181	99,586
\$ -	\$ 142,567	\$ 110,181

CAPITAL PROJECTS FUNDS

Building and Site—to account for property tax revenues and interest earnings used to finance building restoration projects.

2001 Construction—to account for bond proceeds used to finance building construction and renovation projects.

KENT CITY COMMUNITY SCHOOLS
Building and Site Capital Projects Fund
Comparative Balance Sheet
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash equivalents, deposits and investments	\$ 649,548	\$ 484,914
Taxes receivable	300	371
Due from other funds	673	-
Due from other governmental units	<u>1,310</u>	<u>353</u>
Total Assets	<u><u>\$ 651,831</u></u>	<u><u>\$ 485,638</u></u>
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 7,590	\$ -
Due to other funds	1,420	7,516
Due to other governmental units	380	380
Deferred revenue	<u>300</u>	<u>371</u>
Total Liabilities	<u>9,690</u>	<u>8,267</u>
Fund Balances		
Reserved for capital outlay	<u>642,141</u>	<u>477,371</u>
Total Liabilities and Fund Balances	<u><u>\$ 651,831</u></u>	<u><u>\$ 485,638</u></u>

KENT CITY COMMUNITY SCHOOLS
Building and Site Capital Projects Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues		
Local sources:		
Property taxes:		
Current property taxes	\$ 160,584	\$ 152,046
Industrial facilities taxes	475	353
Delinquent property taxes	1	-
Other taxes	1,526	-
Interest on delinquent taxes	419	390
	<u>163,005</u>	<u>152,789</u>
Interest earnings:		
Interest on deposits	<u>18,930</u>	<u>4,080</u>
Total Revenues	<u>181,935</u>	<u>156,869</u>
Expenditures		
Capital outlay:		
Building improvements	16,966	13,995
Tax refunds	199	844
	<u>17,165</u>	<u>14,839</u>
Total Expenditures	<u>17,165</u>	<u>14,839</u>
Net Change In Fund Balances	164,770	142,030
Fund Balances, July 1	<u>477,371</u>	<u>335,341</u>
Fund Balances, June 30	<u><u>\$ 642,141</u></u>	<u><u>\$ 477,371</u></u>

KENT CITY COMMUNITY SCHOOLS
2001 Construction Capital Projects Fund
Comparative Balance Sheet
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash equivalents, deposits and investments	<u>\$ 5</u>	<u>\$ 2,757,565</u>
Liabilities and Fund Balances		
Liabilities		
Accounts payable	<u>\$ -</u>	<u>\$ 556,627</u>
Fund Balances		
Reserved for capital outlay	<u>5</u>	<u>2,200,938</u>
Total Liabilities and Fund Balances	<u>\$ 5</u>	<u>\$ 2,757,565</u>

KENT CITY COMMUNITY SCHOOLS
2001 Construction Capital Projects Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues		
Interest earnings:		
Interest on deposits and investments	<u>\$ 23,140</u>	<u>\$ 91,994</u>
Expenditures		
Capital outlay:		
Architectural fees	16,238	161,157
Building improvements	1,839,758	6,382,470
New equipment and furniture - depreciable	317,201	236,616
New equipment and furniture - non-depreciable	<u>50,876</u>	<u>248,691</u>
Total Expenditures	<u>2,224,073</u>	<u>7,028,934</u>
Excess (Deficiency) of Revenues Over Expenditures	(2,200,933)	(6,936,940)
Fund Balances, July 1	<u>2,200,938</u>	<u>9,137,878</u>
Fund Balances, June 30	<u><u>\$ 5</u></u>	<u><u>\$ 2,200,938</u></u>

AGENCY FUND

Student Activities—to account for the collection and disbursements of monies used by the school activity clubs and groups.

KENT CITY COMMUNITY SCHOOLS
Student Activities Agency Fund
Statement of Changes in Assets and Liabilities
For the year ended June 30, 2006

	<u>Balances</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2006</u>
Assets				
Cash equivalents, deposits and investments	<u>\$ 110,454</u>	<u>\$ 363,482</u>	<u>\$ 349,983</u>	<u>\$ 123,953</u>
Liabilities				
Due to student groups	<u>\$ 110,454</u>	<u>\$ 363,482</u>	<u>\$ 349,983</u>	<u>\$ 123,953</u>

OTHER INFORMATION

KENT CITY COMMUNITY SCHOOLS
Summary of 2005 Taxes Levied and Collected
For the year ended June 30, 2006

	Kent County			Muskegon County	Newaygo County	Ottawa County	
	Solon	Sparta	Tyrone	Casnovia	Grant	Chester	Total
Taxable Valuations							
Operating	\$3,667,116	\$1,160,138	\$19,923,046	\$4,464,327	\$ 2,816	\$ 565,969	\$29,783,412
Debt Service/Building and Site	24,060,193	7,079,034	97,342,331	26,972,840	217,663	5,042,638	160,714,699
Rates (Mills)							
General Fund							17.7084
1997 Debt Service Fund							3.0000
2001 Debt Service Fund							4.2500
2005 Debt Service Fund							1.0000
Building and Site Fund							1.0000
							<u>26.9584</u>
Taxes Levied 2005 Rolls							
General Fund	\$ 64,937	\$ 20,544	\$ 348,195	\$ 79,056	\$ 50	\$ 10,022	\$ 522,804
1997 Debt Service Fund	66,163	19,467	267,686	74,175	599	13,867	441,957
2001 Debt Service Fund	110,913	32,634	448,739	124,345	1,004	23,247	740,882
2005 Debt Service Fund	21,413	6,300	86,633	24,006	194	4,487	143,033
Building and Site Fund	24,059	7,079	97,340	26,973	218	5,042	160,711
	<u>287,485</u>	<u>86,024</u>	<u>1,248,593</u>	<u>328,555</u>	<u>2,065</u>	<u>56,665</u>	<u>2,009,387</u>
Taxes Uncollected 2005 Rolls							
General Fund	376	-	467	-	-	-	901
1997 Debt Service Fund	58	-	73	-	-	-	131
2001 Debt Service Fund	98	-	122	-	-	-	220
2005 Debt Service Fund	19	-	23	-	-	-	42
Building and Site Fund	21	-	26	-	-	-	47
	<u>572</u>	<u>-</u>	<u>711</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,283</u>
Taxes Collected 2005 Rolls							
General Fund	64,561	20,544	347,728	79,056	50	10,022	521,961
1997 Debt Service Fund	66,105	19,467	267,613	74,175	599	13,867	441,826
2001 Debt Service Fund	110,815	32,634	448,617	124,345	1,004	23,247	740,662
2005 Debt Service Fund	21,394	6,300	86,610	24,006	194	4,487	142,991
Building and Site Fund	24,038	7,079	97,314	26,973	218	5,042	160,664
	<u>286,913</u>	<u>86,024</u>	<u>1,247,882</u>	<u>328,555</u>	<u>2,065</u>	<u>56,665</u>	<u>2,008,104</u>
Delinquent Taxes Collected							
General Fund	12	-	-	-	-	-	12
1997 Debt Service Fund	2	-	-	-	-	-	2
2001 Debt Service Fund	-	-	-	-	-	-	-
Building and Site Fund	1	-	-	-	-	-	1
	<u>15</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15</u>
Total Taxes Collected							
General Fund	64,573	20,544	347,728	79,056	50	10,022	521,973
1997 Debt Service Fund	66,107	19,467	267,613	74,175	599	13,867	441,828
2001 Debt Service Fund	110,815	32,634	448,617	124,345	1,004	23,247	740,662
2005 Debt Service Fund	21,394	6,300	86,610	24,006	194	4,487	142,991
Building and Site Fund	24,039	7,079	97,314	26,973	218	5,042	160,665
	<u>\$ 286,928</u>	<u>\$ 86,024</u>	<u>\$ 1,247,882</u>	<u>\$ 328,555</u>	<u>\$ 2,065</u>	<u>\$ 56,665</u>	<u>\$ 2,008,119</u>

(Continued)

KENT CITY COMMUNITY SCHOOLS
Summary of 2005 Taxes Levied and Collected
For the year ended June 30, 2006

	Kent County			Muskegon County	Newaygo County	Ottawa County	
	Solon	Sparta	Tyrone	Casnovia	Grant	Chester	Total
Taxes Uncollected – June 30, 2006							
General Fund:							
2005	\$ 376	\$ -	\$ 467	\$ -	\$ -	\$ -	\$ 843
2004	463	-	761	-	-	-	1,224
2003	436	-	2,742	176	-	-	3,354
	<u>1,275</u>	<u>-</u>	<u>3,970</u>	<u>176</u>	<u>-</u>	<u>-</u>	<u>5,421</u>
1997 Debt Service Fund:							
2005	58	-	73	-	-	-	131
2004	108	-	176	-	-	-	284
2003	107	-	647	73	-	-	827
	<u>273</u>	<u>-</u>	<u>896</u>	<u>73</u>	<u>-</u>	<u>-</u>	<u>1,242</u>
2001 Debt Service Fund:							
2005	98	-	122	-	-	-	220
2004	108	-	174	-	-	-	282
2003	97	-	608	62	-	-	767
	<u>303</u>	<u>-</u>	<u>904</u>	<u>62</u>	<u>-</u>	<u>-</u>	<u>1,269</u>
2005 Debt Service Fund:							
2005	19	-	23	-	-	-	42
Building and Site Fund:							
2005	21	-	26	-	-	-	47
2004	25	-	42	-	-	-	67
2003	23	-	147	16	-	-	186
	<u>69</u>	<u>-</u>	<u>215</u>	<u>16</u>	<u>-</u>	<u>-</u>	<u>300</u>
Total Taxes Uncollected	<u>\$ 1,939</u>	<u>\$ -</u>	<u>\$ 6,008</u>	<u>\$ 327</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,274</u>

**KENT CITY
COMMUNITY SCHOOLS**

Auditor's Report On Compliance
For Federal Grant Programs

For the year ended June 30, 2006

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KENT CITY COMMUNITY SCHOOLS

For the year ended June 30, 2006

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Hungerford, Aldrin,
Nichols & Carter, P.C.

CPAs AND CONSULTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

August 25, 2006

The Board of Education
Kent City Community Schools
Kent City, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kent City Community Schools as of and for the year ended June 30, 2006, Which collectively comprise Kent City Community School's basic financial statements and have issued our report thereon dated August 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kent City Community School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The Board of Education
Kent City Community Schools
August 25, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kent City Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hungerford, Aldrin, Nichols & Barten, P.C.

Certified Public Accountants

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

August 25, 2006

The Board of Education
Kent City Community Schools
Kent City, Michigan

Compliance

We have audited the compliance of Kent City Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Kent City Community School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Kent City Community School's management. Our responsibility is to express an opinion of Kent City Community School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kent City Community School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Kent City Community School's compliance with those requirements.

In our opinion, Kent City Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

The Board of Education
Kent City Community Schools
August 25, 2006

Internal Control Over Compliance

The management of Kent City Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Kent City Community School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kent City Community Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 25, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Kent City Community School's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hungerford, Alden, Nichols & Benton, P.C.

Certified Public Accountants

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

KENT CITY COMMUNITY SCHOOLS

For the year ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
U.S. Department of Education		
Passed through Michigan Department of Education (MDE):		
Title I:	84.010	
0515300405		\$107,784
0515300405		12,971
0615300506		131,544
Total Title I		252,299
Title I – Migrant:	84.011	
0518900405-Fall		46,477
0518302005-Summer		120,954
0518900506-Fall		51,920
Total Title I – Migrant		219,351
Title IIA:	84.367	
0605200506		56,451
Title IID Technology Literacy Challenge Grant:	84.318	
0642900506		2,454
Title III-LAP:	84.365	
0605800506		12,895
Title V:	84.298	
0602500506		573
Total Passed Through MDE		544,023
Passed through Kent Intermediate School District (KISD):		
Safe and Drug Free Schools and Communities Act:	84.186	
0528600506		1,060
0628600506		2,630
Total Safe and Drug Free Schools and Communities Act		3,690

(Continued)

Accrued (Deferred) Revenue July 1, 2005	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2006
\$15,851	\$107,784	\$12,971 113,710	\$15,851 12,971 61,509	\$52,201
15,851	107,784	126,681	90,331	52,201
	48,419 145,087	(1,942) 120,954 51,920	(1,942) 120,954 40,550	11,370
—	193,506	170,932	159,562	11,370
	56,290	56,451	35,290	21,161
	3,069	2,454	2,454	
	9,270	10,626	10,626	
	880	573	573	
15,851	370,799	367,717	298,836	84,732
	2,812	1,060 2,630	1,060 2,630	
—	2,812	3,690	3,690	—

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**KENT CITY COMMUNITY SCHOOLS**

For the year ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
Special Education Cluster:		
I.D.E.A. – Flow Through:	84.027	
Flow Through – 0504500405		\$240,302
Flow Through – 0604500506		240,535
		<hr/>
Total I.D.E.A. – Flow Through		480,837
		<hr/>
I.D.E.A. – TMT:	84.027A	
TMT – 050480		282
		<hr/>
I.D.E.A. – Preschool:	84.173	
Preschool – 0504600405		8,095
Preschool – 0604600506		7,282
		<hr/>
Total I.D.E.A. – Preschool		15,377
		<hr/>
Total Special Education Cluster		496,496
		<hr/>
Total Passed Through Intermediate School District		500,186
		<hr/>
Total U.S. Department of Education		1,044,209
		<hr/>
U.S. Department of Health and Human Services		
Passed through Kent Intermediate School District (KISD):		
School Based Medicaid:	93.778	4,345
		<hr/>
Total U.S. Department of Health and Human Services		4,345
		<hr/>

(Continued)

Accrued (Deferred) Revenue July 1, 2005	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2006
\$94,565	\$240,302	\$240,535	\$94,565 179,515	\$61,020
94,565	240,302	240,535	274,080	61,020
239	239		239	
3,154	8,095	7,282	3,154 4,681	2,601
3,154	8,095	7,282	7,835	2,601
97,958	248,636	247,817	282,154	63,621
97,958	251,448	251,507	285,844	63,621
113,809	622,247	619,224	584,680	148,353
	569	4,345	4,345	
—	569	4,345	4,345	—

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

KENT CITY COMMUNITY SCHOOLS

For the year ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
U.S. Department of Agriculture Nutrition Cluster		
Passed Through Michigan Department of Education (MDE):		
National School Lunch Program:		
Lunches:		
Section 4 – Total Servings – 1950	10.555	\$28,914
Section 11 – Free and Reduced – 1960		119,686
Total Lunches		148,600
Breakfast:		
Total Servings – 1970	10.553	4,282
Free and Reduced – 1970		17,656
Total Breakfast		21,938
Child Care Food Program	10.558	19,831
USDA Commodities:		
Bonus Commodities	10.550	451
Entitlement Commodities		21,741
Total USDA Commodities		22,192
Total U.S. Department of Agriculture (Passed Through MDE)		212,561
Total Federal Financial Assistance		\$1,261,115

- Notes: 1. This schedule was prepared using accounting policies consistent with those used in preparing the Basic Financial Statements.
2. The amounts reported on the R7120, Grant Section Auditors Report, reconcile with this schedule.
3. The amounts reported on the Recipient Entitlement Report, or PAL Report, agree with this schedule for USDA donated food commodities.

Accrued (Deferred) Revenue July 1, 2005	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2006
	\$23,564	\$28,914	\$28,914	
	103,878	119,686	119,686	
—	127,442	148,600	148,600	—
	4,621	4,282	4,282	
	18,647	17,656	17,656	
—	23,268	21,938	21,938	—
	23,914	19,831	19,831	
	1,937	451	451	
	12,109	21,741	21,741	
—	14,046	22,192	22,192	—
—	188,670	212,561	212,561	—
\$113,809	\$811,486	\$836,130	\$801,586	\$148,353

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

KENT CITY COMMUNITY SCHOOLS

For the year ended June 30, 2006

Section I – Summary of Auditor’s Results (Continued)

Federal Awards (Continued)

Dollar threshold used to distinguish between type A and
type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 X Yes

 No

Section II – Financial Statement Findings

No matters reported.

Section III – Federal Award Findings and Questioned Costs

No matters reported.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

KENT CITY COMMUNITY SCHOOLS

For the year ended June 30, 2006

Note A – Federal Income Reconciliation

	Grant Expenditures Per Schedule of Federal Financial Assistance	Federal Revenue Per Financial Statements	Difference
Title I	\$126,681	\$126,681	
Title I Migrant	170,932	170,932	
Title IIA	56,451	56,451	
Title IID	2,454	2,454	
Title III Migrant	10,626	10,626	
Title V	573	573	
Safe and Drug Free Schools and Communities Act	3,690	3,690	
I.D.E.A.	247,817	247,817	
School Based Medicaid	4,345	4,345	
Child Care Food Program	19,831	19,831	
Nutrition Cluster	192,730	192,730	
	\$836,130	\$836,130	—

Hungerford, Aldrin,
Nichols & Carter, P.C.

C P A S AND CONSULTANTS

August 25, 2006

The Board of Education
Kent City Community Schools

The following comments pertain to our audit of the financial records of Kent City Community Schools as of and for the year ended June 30, 2006. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication With Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements With Management.
7. Consultation With Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected Misstatements (Passed Audit Adjustments).

The communications specified by this Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the District's financial statements.

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of Kent City Community Schools:

Auditors Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Kent City Community School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Kent City Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Kent City Community School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Kent City Community School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Kent City Community School's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Kent City Community Schools are described in Note A to the financial statements.

Difficulties Encountered In Performing The Audit

We encountered no significant difficulties in performing the audit of the financial statements of Kent City Community Schools for the year ended June 30, 2006. We found the internal control structure and accounting system to be basically adequate and operating in the manner intended.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. During the course of our audit the following adjustments of a significant nature were made to the accounting records of the District to bring the balances to those presented in the financial statements:

General Fund

1. \$73,877 to record the receivable due from KISD for the 2005-06 Medicaid reimbursement.

Food Service Fund

1. \$22,192 to record USDA bonus and entitlement commodities received during the year.

Proposed Audit Adjustments

There were no material adjustments proposed during the audit not recorded by Kent City Community Schools.

Suggestions And Recommendations

We offered suggestions and recommendations regarding the day-to-day operations of the accounting system of Kent City Community Schools to the Business Manager as the topics arose during the course of our audit fieldwork. Hopefully, these suggestions will ease the day-to-day operations of the business office and assist in more efficient monthly and year-end financial record keeping and reporting.

Other Comments

The General Fund balance of the District increased by \$197,383 to \$1,298,688 at June 30, 2006. This balance represents approximately 10.25 percent of the District's 2006-07 expenditure budget (up from 9.5 percent at June 30, 2005). Maintaining a fund balance of at least 10 to 20 percent of the ensuing year's expenditure budget is advisable for Kent City Community Schools. This gives the District more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

Other Comments (Continued)

Our audit this year was again completed under the requirements of Statement on Auditing Standards No. 99 "Consideration of Fraud in a Financial Statement Audit" (SAS No. 99), which requires both auditors and their clients to more directly and openly assess those areas within a school district that might be susceptible to fraudulent activity, which would normally include those areas outside the central office that handle cash, inventory, supplies, etc. This is an important audit standard that requires increased face-to-face discussions/interviews with client personnel and extensive documentation of our findings for future reference. We found that Kent City Community Schools has a very extensive network of internal controls within its accounting and record keeping system, and found those tested this year to be operating in the manner intended. Working with District business office personnel, we will be testing other control areas each year as a part of our audit, with suggestions and recommendations to follow the testing each year, to assist the District in maintaining and improving its systems.

This communication is intended solely for the information and use of the Kent City Community Schools Board of Education, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Education as an enclosure with the audit report as required by the State of Michigan.

We appreciate the opportunity to provide financial auditing and advisory services to Kent City Community Schools and hope to continue to do so in the future. We also appreciate the dedication and cooperation of the District's administration and accounting personnel in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communications, we will be happy to address them.

Hungerford, Aldrin, Nichols & Benton, P.C.

Certified Public Accountants